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# Taiwan

## Sugar

## Update

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### Report Highlights:

Taiwan's entry into the World Trade Organization allowed private sector firms to import sugar onto the island for the first time under a 120,000mt TRQ. Taiwan's nearly 600,000mt annual demand for sugar is set to be filled increasingly by refined sugar from foreign suppliers. Taiwan looks likely to boost its imports of refined sugar more than three-fold in 2003, while paring back imports of raw sugar.

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Includes PSD changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Taipei ATO [TW2], TW



## **Executive Summary**

High production costs and the relatively low price of sugar on world markets have led the Taiwan Sugar Corporation (TSC, the monopoly player in Taiwan's sugar market before January 2002) to cut back significantly on the volume of sugarcane grown and processed into centrifugal sugar over the past decade. From a recent high of nearly 500,000 metric tons (1992), the TSC is expected to process only 195,000 metric tons of refined sugar from local sugarcane this year (2002).

Last year (2001) the TSC still processed at its 10 sugar mills nearly all (97%) of the sugar required to satisfy the island's domestic consumption needs, although two-thirds of output was refined from imported sugar. The 391 thousand metric tons (mt) of sugar imported in 2001 represents a more than 7-fold increase over 1992 import volumes.

The monopoly held by the Taiwan Sugar Corporation (TSC) over the purchase, processing, importation, and sale of sugar in Taiwan ended with the island's entry into the World Trade Organization (WTO) in January 2002. Under the terms of Taiwan's WTO accession, Taiwan opened to private sector importers this year (2002) a 120,000 mt tariff rate quota (TRQ) for centrifugal sugar. TRQ restrictions will end for all sugar products in 2004, at which time Taiwan will have a liberalized market. The TSC is exempt from TRQ restrictions and continues to import raw sugar for processing at its facilities.

The TSC is gradually de-emphasizing sugar production in favor of more lucrative business areas, such as biotechnology and real estate development. As production continues to shrink over the next 5 years, it is likely that Taiwan will switch to imported refined sugar to meet up to 80% of its consumption demand.

## **Production**

Historically, the purchase, processing, importation, and sale of sugar in Taiwan have been under the monopoly control of the Taiwan Sugar Corporation. Taiwan's entry into the WTO ended that company's exclusive right to import by opening a TRQ for sugar available to the private sector.

Taiwan, prior to its emergence as a major manufacturer of industrial and consumer goods, was a significant producer and exporter of processed cane sugar. As recently as 1977, the TSC produced over 1 million metric tons of refined and brown sugar from sugarcane both grown on its extensive plantations and purchased from private farmers under long-term contracts. The fall in world sugar prices which began at the end of the 1970s, coupled with Taiwan's general shift away from agricultural commodity production, began the process of production contraction which is still ongoing.

In recent years, rising domestic production costs, low world market prices, and looming market opening measures led the TSC to further slash sugarcane harvest volumes, reduce processing capacity, and turn to the world market to source the bulk of its raw sugar needs.

Today, Taiwan has about 30 thousand hectares remaining planted in sugarcane that is destined for centrifugal processing, with yields averaging around 77 metric tons of cane per hectare. Sugar refined from Taiwan cane has fallen below 200,000 metric tons and today meets only about 1/3 of local consumption needs.

### Production, Supply, and Consumption of Centrifugal Sugar

Calendar Year, in Metric Tons

	2001	2002 (est)	2003 (est)
Total Production	<b>188,862</b>	<b>195,000</b>	<b>160,000</b>
of which Cane	188,862	195,000	160,000
of which Beet	0	0	0
Total Imports	<b>391,220</b>	<b>376,110</b>	<b>420,000</b>
of which Raw	363,699	330,800	270,000
of which Refined	27,521	45,310	150,000
Total Supply	<b>580,082</b>	<b>571,110</b>	<b>580,000</b>
Total Exports	<b>12,147</b>	<b>14,080</b>	<b>14,000</b>
of which Raw	12,124	14,000	13,980
of which Refined	23	80	20
Domestic Consumption	<b>567,935</b>	<b>557,030</b>	<b>566,000</b>

Government policy obligates the TSC to continue purchasing sugar at fixed prices (reportedly NT\$24,878<sup>1</sup> per metric ton of refined sugar) from around 11,000 farmers as well as provide those farmers with other direct benefits. Therefore, TSC's production cutbacks and field closures have, by necessity, mostly targeted land under its direct control. Land is now TSC's principal asset, which the company intends to leverage to pursue other, more lucrative, business ventures, including biotechnology, real estate development, hog rearing, and recreation, among others.

The TSC is in the process of shutting down over the next three years 6 of its 10 centrifugal sugar processing plants around the island. The TSC's four remaining plants will process the targeted 120,000 metric tons of refined sugar slated to be produced by the company in 2005~2006. TSC plants will also continue to refine imported sugar, although in decreasing volumes.

<sup>1</sup>Approximately US\$715 per metric ton (US\$1 : NT\$34.8)

## Trade

Historically, the TSC imported sugar on an "as needed" basis to compensate for shortfalls in domestic supply necessary to meet consumption demand. However, since domestic production levels declined below the point of market equilibrium (about 500 metric tons) during the late 1980s and early 1990s, the TSC has imported regular and increasing volumes of raw sugar for processing - from 50,500 mt a decade ago to 376,110 mt (est.) this year.

Prior to 2002, the TSC was the single entity authorized to import sugar into Taiwan. This ensured that imports were heavily skewed toward raw, rather than refined, sugar. Over the past 3 years, raw sugar accounted for 86% of all sugar imported. Now, with a 300,000 mt TRQ open for refined sugar in 2003 and an open market for all sugar products as of 2004, the import ratio will likely reverse, in favor of refined sugar products.

Taiwan is no longer a significant sugar exporter, with the single exception of regular sales to the United States, which buys around 12,500 mt of sugar (mostly unrefined) annually from Taiwan under an annual TRQ program.

## Post WTO

**Tariff Rate Quotas:** Under the terms of Taiwan's WTO accession, the island opened in 2002 an initial 120,000 mt TRQ to the private sector for all centrifugal sugar products. Quantities of raw and refined sugar brought in under the TRQ are subject to tariff rates of 12.5% and 17.5%, respectively.

Intense lobbying from industry groups, sparked by price hikes for TSC sugar products in early 2002, helped accelerate the pace of market liberalization for centrifugal sugar. Beginning next year (2003), raw sugar product imports will no longer be restricted by TRQ and the tariff will drop from the current 12.5% to 6.25%. The TRQ for refined sugar will increase in 2003 to 300,000 mt (rather than the WTO-mandated 162,500 mt) and then be eliminated in 2004 (refer to table below).

### Tariff Rate Quotas and Tariff Rates

	2002 TRQ & in-TRQ Tariff	2003 TRQ & in-TRQ Tariff	2004 TRQ& in-TRQ Tariff
Sugar, Raw	120,000 mt TRQ (combined) • 12.5% tariff for raw	Open Access • 6.25% tariff	same as 2003
Sugar, Refined	• 17.5% tariff for refined	300,000 mt TRQ • 17.5% tariff	Open Access • 17.5% tariff

The out-of-TRQ (penalty) tariff rate is currently set at 168%. This will be revised downward to 143% in 2003 and eliminated in 2004.

The TSC is not bound by TRQ restrictions and continues to import sugar, based on its needs, subject to payment of the applicable in-TRQ tariff rate.

**TRQ Allocations:** Sugar import quota allocations are auctioned on a competitive basis by the Central Trust of China ([www.ctoc.com.tw](http://www.ctoc.com.tw)) with quotas allocated in the order of the highest bids offered.

Industry reports that the first TRQ auction held in June 2002 attracted over 100 companies, with successful bidders paying an "unexpectedly high" premium of between NT\$3,500 and NT\$4,000 (US\$100~116) per metric ton quota allocation.

**Special Safeguards (SSGs):** Sugar, both raw and refined, is permitted WTO Special Safeguard (SSG) protection. Imposition by Taiwan of SSG protection during 2004 will likely increase the tariff level to 22.75% for refined sugar for a period of several years. Raw sugar is not likely to be eligible for SSG due to the already significant import volumes seen in recent years.

**Supplier Countries:** All WTO member states, with the exception of China, are eligible to export to Taiwan, subject to Customs and quarantine inspections. Sugar products from China are currently not permitted entry and no schedule for liberalizing items in this category has been set.

## Prices and Marketing

Reports indicate that TSC's cost structures make the cost of producing sugar in Taiwan between 2 to 4 times higher than in competitive sugar exporting countries. According to the TSC, the current wholesale price for sugar (about US\$0.43/kg) covers only around half of TSC's production (crop to crystal) costs (approximately US\$0.90/kg).

The obligations that the TSC has to sugarcane farmers as a government-owned enterprise ensures that the company will continue producing sugar and selling at a significant loss through the foreseeable future. However, the TSC can be expected to steadily reduce production of local sugarcane to the minimum necessary to meet policy obligations. The TSC expects losses made on its sugar business to be recouped through the company's investments in other business areas.

Prior to WTO, sugar prices were held somewhat below world market prices. As of 2002, the price of sugar sold by the TSC varies to approximate world market prices. Some representative recent prices (with dates) are listed on the following page.

<b>Recent Ex-Factory Prices for Refined Sugar (TSQ)</b> S\$1 = NT\$34.7 (approx) In bulk packaging Unit of Measure: Kilograms			
Close of 2001	NT\$ 15.4	08/03/2002	NT\$ 14.8
01/2002	16.5	08/15/2002	15.0
		09/03/2002	14.9
05/03/2002	16.5	09/16/2002	14.6
05/15/2002	16.5	10/03/2002	14.2
06/03/2002	16.5	10/15/2002	14.8
06/15/2002	14.8	11/03/2002	14.7
07/03/2002	14.4	11/15/2002	15.0
07/15/2002	14.7	12/03/2002	15.0

Manufacturers of confectionery, candy, and other similar food products have historically been unsatisfied with the performance of TSC's higher sugar grades. It was this industry block which lobbied hardest for faster market liberalization. Therefore, refined sugar should be the most significant growth area within sugar imports in the coming years, purchased by importers and food processors.

## Import Statistics

Imports, by year and product (in metric tons)

Calendar Year / Item	17011100105	17011100908	17019920008	17019990904	1701
	Brown Sugar	Other Raw Cane Sugar	Rock Sugar	Other Sugar, Refined	TOTAL Cane & Beet Sugar, in solid form
1991	0	0	0	48,975	48,975
1997	0	187,209	0	19,009	206,218
1998	0	187,512	0	56,512	244,026
1999	0	186,012	0	67,308	253,325
2000	0	325,601	0	43,089	368,690
2001	30	363,669	19	27,502	391,220
2002 (est)	800	330,000	310	45,000	376,110

## Imports by Country (2001, in metric tons)

Calendar Year 2001	17011100105	17011100908	17019920008	17019990904	1701
	Brown Sugar	Other Raw Cane Sugar	Rock Sugar	Other Sugar, Refined	TOTAL Cane & Beet Sugar, in solid form
United States	0	5	0	0	5
Australia	0	123,766	0	18,500	142,266
Guatemala	0	89,841	0	0	89,841
Thailand	30	69,998	19	0	70,047
Brazil	0	60,013	0	0	60,013
Vietnam	0	20,024	0	0	20,024
UAE	0	0	0	9,000	9,000
Other	0	22	0	2	24
TOTAL	30	363,669	19	27,502	391,220

## Imports by Country (2000, in metric tons)

Calendar Year 2000	17011100105	17011100908	17019920008	17019990904	1701
	Brown Sugar	Other Raw Cane Sugar	Rock Sugar	Other Sugar, Refined	TOTAL Cane & Beet Sugar, in solid form
United States	0	4	0	0	4
Australia	0	211,000	0	18,800	229,800
Guatemala	0	57,575	0	0	57,575
Thailand	0	48,000	0	0	48,000
Brazil	0	0	0	0	0
Vietnam	0	9,006	0	6,279	15,285
UAE	0	0	0	18,000	18,000
Other	0	16	0	10	26
TOTAL	0	325,601	0	43,089	368,690



